

Message Text

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ACTION NEA-10

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C O N F I D E N T I A L KATHMANDU 1849

E.O. 11652: GDS

TAGS: ETRD, PFOR, NP

SUBJECT: INDO-NEPAL TRADE AND OTHR RELATIONS

REF: KATHMANDU 1745

1. CONTRARY TO THE INITIAL NEGATIVE REACTION REPORTED REFTEL ON REPORTS THAT INDIA HAD INFORMED NEPAL THAT IT COULD "NOW EXPORT RICE TO ANY PART OF INDIA WITHOUT RESTRICTIONS", TOP GON OFFICIALS WITH WHOM THE CHARGE HAD SPOKEN IN THE PAST FEW DAYS HAVE WELCOMED INDIA'S MOVE AS A SIGNIFICANT CONCESSION AND AN ERNEST OF INDIA'S INTEREST IN MAINTAINING THE MOMENTUM TOWARDS IMPROVED INDIA-NEPAL RELATIONS GENERATED BY PRIME MINISTER GIRI'S RECENT VISIT TO INDIA. ACCORDING TO THESE OFFICIALS, INDIA HAS AGREED TO A DOUBLE CONCESSION. FIRST, IT WILL CONTINUE TO ALLOW NEPAL TO SELL ITS RICE DIRECTLY TO ANY STATE GOVERNMENT IN INDIA INTERESTED IN BUYING IT AND, SECOND, IT HAS AGREED THAT NEPAL, BECAUSE OF HIGHER PRODUCTION COSTS, WILL NOT HAVE TO SELL AT THE INTERNAL PROCUREMENT PRICE FIXED BY THE GOI. (THE EXACT SELLING PRICE IS TO BE NEGOTIATED OUT AND A GROUP OF NEPALESE OFFICIALS WERE SCHEDULED TO LEAVE FOR NEW DELHI APRIL 28 FOR THAT PURPOSE; INDIAN AMBASSADOR RASGOTRA WILL ALSO PARTICIPATE IN THESE

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DISCUSSION). THESE CONCESSIONS PLACE NEPAL IN A

MORE ADVANTAGEOUS POSITION THAN AN INDIAN STATE LIKE PUNJAB OR HARAYANA, FOR EXAMPLE, IN TERMS OF SELLING ITS RICE TO A DEFICIT STATE LIKE KERALA. (ALTHOUGH, IT MIGHT BE NOTED, STILL IN A LESS ADVANTAGEOUS POSITION THAN A THIRD COUNTRY SUCH AS THAILAND WHICH HAS ALTERNATIVE MARKETS AND CAN THEREFORE SELL AT INTERNATIONAL MARKET PRICES.)

2. INDIA'S INITIAL AGREEMENT, ACCORDING TO FOREIGN SECRETARY BHATT, IS FOR THE FOOD CORPORATION OF INDIA TO PURCHASE 50,000 TONS OF NEPALESE RICE, FROM WHICH THE NEPALESE HOPE TO REALIZE ABOUT NINE CRORES OF BADLY-NEEDED INDIAN RUPEES. BHATT BELIEVES NEPAL WILL PROBABLY ALSO BE ABLE TO SELL ANOTHER 50,000 TONS DIRECTLY TO STATES LIKE KERALA AND MAHARASHTRA. ACCORDING TO FINANCE MINISTER BHEKH THAPA, THE PRICE REALIZED ON THESE SALES WILL BE LESS THAN THE MORE THAN RS. 300 PER QUINTAL NEPAL RECEIVED LAST YEAR FROM RICE SALES TO INDIA, BUT SHOULD AT LEAST EQUAL THE NEPALESE PRODUCTION COST OF ABOUT RS. 200-215 PER QUINTAL.

3. ALL THESE OFFICIALS STRESSED THAT INDIA'S DECISION ON THIS MATTER IS A "POLITICAL" TOKEN OF ITS GOODWILL AND A DIRECT RESULT OF GIRI'S VISIT. BHATT AND COMMERCE AND INDUSTRY MINISTER HARKHA GURUNG, BOTH OF WHOM ACCOMPANIED GIRI TO INDIA, NOTED THE IMPORTANCE OF AINTAINING A GOOD POLITICAL ATMOSPHERE WITH INDIA IF NEPAL'S ECONOMIC NEEDS ARE TO BE REALISTICALLY SERVED. GURUNG SAID HE BELIEVED THE VISIT HAD SET THE STAGE FOR A MORE REALISTIC INDO-NEPALI RELATIONSHIP, IN WHICH SENTIMENT WOULD PLAY A LESSER ROLE THAN IN THE PAST. IF NEPAL IS AN INDEPENDENT STATE, CLAIMING EQUAL SOVEREIGN STATUS WITH INDIA, HE SAID, IW WILL HAVE TO ACT ACCORDINGLY AND NOT EXPECT SPECIAL TREATMENT FROM INDIA; THIS COURSE WILL BE MORE EXPENSIVE FOR NEPAL INITIALLY, BUT WILL BE BETTER FOR NEPAL'S SELF-RESPECT AND BETTER FOR PROMOTING A MORE STABLE, REALISTIC RELATIONSHIP BETWEEN THE TWO COUNTRIES. AT THE SAME TIME, HE SAID, WHEN HE SAT DOWN TO NEGOTIATE WITH INDIA HE WAS FULLY AWARE THAT IT WAS NOT A MEETING OF EQUALS AND THAT INDIA'S LEVERAGE OVER

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NEPAL WAS TREMENDOUSLY GREAT. IN THESE CIRCUMSTANCES, HE SAID, THE POLITICAL ATMOSPHERE WAS OBVIOUSLY OF PRIME IMPORTANCE. GURUNG NOTED IN THAT CONNECTION THAT, GIVEN INDIA'S INTEREST IN THE DEVELOPMENT OF NEPAL'S HYDRO-ELECTRIC RESOURCES, THE SOONER NEPAL GOT ON WITH THE JOB THE BETTER, NOT ONLY FOR POLITICAL REASONS BUT ALSO BECAUSE THE EXPORT OF HYDRO-ELECTRIC POWER TO INDIA WAS THE MOST PROMISING AVENUE FOR NEPAL TO BALANCE

ITS RUPEE IMPORTS FROM INDIA.

4. GURUNG ALSO COMMENTED, IN CONNECTION WITH THE UPCOMING NEGOTIATIONS ON THE TRADE AND TRANSIT TREATY THAT THERE ARE A GREAT MANY PROVISIONS IN THE AGREEMENT WHICH ARE ADVANTAGEOUS TO NEPAL AND THAT NEPAL WILL THEREFORE NOT BE SEEKING ANY EXTENSIVE MODIFICATIONS OF THE AGREEMENT. NEPAL WILL INSTEAD BE LOOKING MAINLY FOR IMPROVED IMPLEMENTATIONS OF THE EXISTING PROVISIONS OF THE AGREEMENT.

5. FOREIGN SECRETARY BHATT, IN HIS COMMENTS ON THE NEED TO MAINTAIN A GOOD POLITICAL ATMOSPHERE, NOTED THAT WHILE HMG CONTINUES TO TAKE SERIOUSLY ITS "ZONE OF PEACE" PROPOSAL, IT RECOGNIZES THAT THE PROPOSAL CAN COME TO NOTHING WITHOUT INDIAN SUPPORT. NEPAL WILL THEREFORE NOT PUSH ITS PROPOSAL IN SUCH A WAY AS TO JEOPARDIZE ITS POSSIBLE EVENTUAL ACCEPTANCE BY INDIA AND WILL MEANWHILE HOPE THAT THE MAINTENANCE OF A POSITIVE POLITICAL ENVIRONMENT MAY IN TIME MODIFY INDIA'S CURRENT NEGATIVE REACTION.

6. ONE COULD NOT FAIL TO NOTE THE FREQUENCY WITH WHICH THE WORD "REALISTIC" WAS USED BY THESE OFFICIALS IN THEIR DISCUSSION OF THE REQUIREMENTS OF NEPAL'S POLICY TOWARDS INDIA AND HOW OFTEN THEIR COMMENTS APPEARED TO REFLECT A REALISTIC ASSESSMENT OF THE RELATIONSHIP BETWEEN THE TWO COUNTRIES. THIS ATTITUDE IS REFLECTED IN THEIR POSITIVE REACTION TO A DISPOSITION OF THE RICE TRADE ISSUE WHICH LEAVES NEPAL WITH CONSIDERABLY LESS THAN IT HAD BEFORE, BUT IS STILL BETTER THAN IT MIGHT HAVE BEEN. GURUNG, THAPA, AND BHATT ALL INDEPENDENTLY REMARKED THAT THE PRESENT INDIAN

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CONCESSIONS WITH REGARD TO NEPALESE RICE SALES COULD NOT BE ASSUMED TO BE A PERMANENT FEATURE OF THE BILATERAL LANDSCAPE AND THAT NEXT YEAR NEPAL MIGHT WELL FIND ITSELF WITHOUT SUCH FAVORED TREATMENT.
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